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Report Highlights: Vietnam's wheat imports continue to rise rapidly to meet the increasing demands of the wheat milling and aquacultural feed industries. Vietnam's wheat imports have climbed steadily from 80,000 metric tons in 1996 to 825,000 mt in 2002. By 2004, wheat imports will probably exceed one million metric tons. Although Vietnam's domestic corn production increased from 2.313 million metric tons (mmt) in CY-2002 to 2.40 mmt in CY-2003, it still does not meet the increasing demands of the rapidly expanding animal feed industry. Corn imports (mostly from China) could increase to 360,000 mt in 2003 and 400,000 mt in 2004.

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WHEAT

Vietnam's Wheat Milling Industry is Expanding

Vietnam is a wheat importer as it does not grow wheat. Some research institutes of the Ministry of

Agricultural and Rural Development (MARD) tried to grow wheat in Vietnam without any success.

Vietnam's wheat milling industry has expanded tremendously in the last four years. Vietnam's wheat mill capacity was estimated at 5,800 mt/day as of September 2003, an increase of 360% compared with the industry's capacity in 1996 of only 1,610 mt/day. The total number of wheat mills increased to 23 in 2003, compared with only five wheat mills in 1996.

During 2002-2003, four foreign invested flour mills were built that have more advantages than the local (smaller and older) mills in terms of technical and marketing skills; technology-capacity scale; close proximity access to port discharge facilities and also financial abilities. The most modern mill is the one in Ba Ria Vung Tau province that has also set up the best bulk grain port-handling system in Vietnam with direct port discharge of 600 tons per hour for accepting Panamax-size ships supported by a silo storage system. This facility will definitely create more opportunity for U.S. wheat to enter Vietnam due to freight cost effectiveness on basis of Panamax-size vessel shipments.

Vietnam Wheat Flour Production

Although Vietnam has much processing capacity, currently most wheat mills are operating at well under their designed maximums. In fact, many mills are only running at one-third to one-half of the capacity. Due to the over-supply of mills, there is tough price competition in the wheat flour market. Post suspects that many of the smaller and older mills will (eventually) go out of business.

Post estimates Vietnam's 2003 wheat flour production at 610 thousand metric tons (tmt) extracted from 825 tmt of imported wheat. Most wheat millers expect flour production to continue to grow by 10% in each of the next two years due to increasing demand from noodle, bakery and aquacultural feed industries.

Vietnam's wheat milling extraction rate is about 73-74% (lower than many countries) because of the huge imports of cheap and low quality wheat. There is also a good market for wheat milling by-products, such as the wheat bran and pollen.

Wheat Flour Consumption

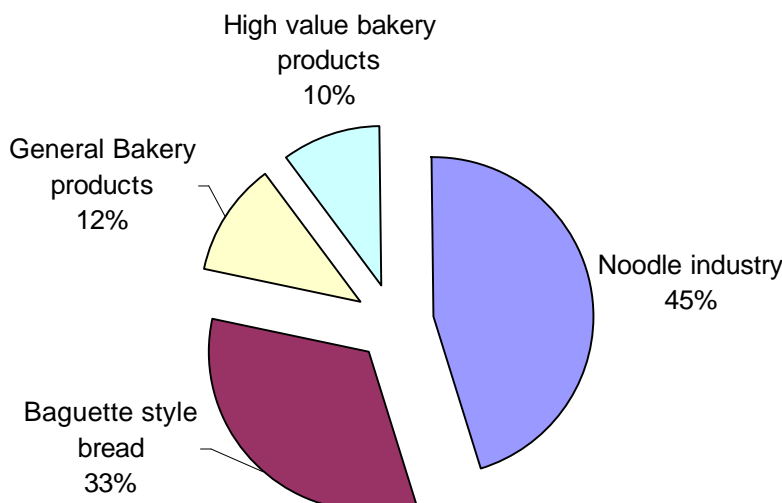
Vietnam's food and aquaculture use of wheat flour is growing by approximately 10% per annum. It is accelerated by the expanding noodle industry (supported by strong exports of instant noodle); bakery industries and increasing demands of the shrimp feed industry.

Food usage of wheat flour is raising due to good export markets of instant noodles, stable growth of the national economy (Vietnam's 2003 GDP's growth rate estimated at 7.5%) and changing eating habits. Urban populations are consuming more wheat flour based food products. The staple food is still rice, but the proportion of wheat-based products in the Vietnamese daily diet has been gradually increasing. Wheat flour is used mainly for making instant and wet noodles, baguette style breads and other bakery and confectionary products. According to wheat millers, wheat flour is used:

- 45 % for noodle industry (mainly instant noodle)
- 33 % for baguette style bread, including Vietnamese-style short baguette bread
- 12% for general bakery products (cakes, biscuits, cookies etc.) and confectionary
- 10% for high-quality bakery products (see figure 1).

The higher-quality flour market is a good target market for U.S. wheat. Demand for higher-end wheat flour is increasing as consumption of high value bakery products is raising.

Figure 1: Wheat Flour usage for food



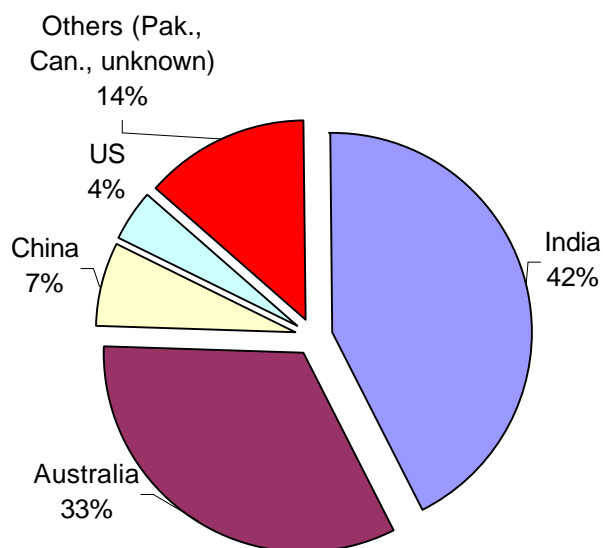
More than 70 percent of the wheat flour produced in Vietnam is consumed in the south of Vietnam, while the northern sections takes about 20 percent and the long central region only 10 percent. In general, the Vietnamese wheat flour market is still a low-price (low-quality) flour market

Wheat flour is also being used in aquaculture feed, mostly for shrimp feed. According to wheat millers, aquaculture use is about 10%-12% of Vietnam's total flour consumption.

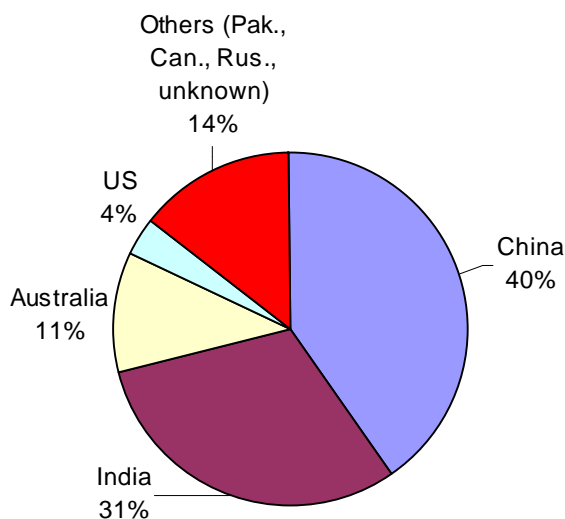
While lower and medium-quality flour is used in aquaculture feed, there is also a growing demand for higher-quality flour for special products. One company in Ho Chi Minh City is setting up a production line to use high-quality flour to manufacture special breadcrumbs which will be used to coat semi-processed and fully prepared shrimp products for the seafood industry.

Wheat Imports

Vietnam's 2002 wheat imports were estimated at 825 tmt, an increase of 17% compared with 2001's level. India was the biggest wheat supplier to Vietnam, with a market share of 42% (350 tmt), followed by Australia which exported 270 tmt of wheat for a share of 33% of the market. The wheat import from China was estimated at 58 tmt. The U.S. wheat accounted for 4% of the market share (see figure 2 and table 1). Other wheat suppliers to Vietnam included Canada, Pakistan and Russia.

Figure 2: Vietnam's 2002 wheat Import by key exporting countries

In the first eight months of 2003, Vietnam imported about 720 tmt of wheat. China was the leading wheat supplier to Vietnam with a volume of 290 tmt (40%). India ranked in second place (31%). U.S. wheat exports to Vietnam are estimated at 26 tmt, accounting for 4% of the market share (see figure 3 and table 1).

Figure 3: Vietnam's Wheat Import in the first 8 months of 2003

Wheat traders were quoted as saying that, low quality and very cheap wheat was being used in the animal feed industry. Post can not determine exactly how much wheat is being used for animal versus human consumption, but the amounts this year are much higher than normal.

Table 1: Vietnam's wheat imports by key exporting countries (unit: tmt)

	1999	2000	2001	2002	Jan/Aug.03
TOTAL WHEAT IMPORTS	440	550	705	825	720
From Australia	396	434	440	270	80
From India	0	0	178	350	220
From China	0	0	0	58	290
From United States	36	36	38	35	26
Other countries	8	80	49	112	104
TOTAL FLOUR IMPORTS	145	82	62	50	33
TOTAL FLOUR EXPORTS	0	3	6	10	0

Source: Trade

According to wheat traders, Vietnam's 2003 wheat imports should reach 920 tmt, an increase of 12% compared with 2002's level. By 2004, Post estimates Vietnam's imports could surpass one million metric tons.

Although this growing market is a potential market for U.S. wheat, this market continues to be driven by low-price and low-quality concerns. With too many mills, and strong price competition, the demand is strictly focused on price -- not quality. Most of flour consumers (many small bakeries) have little regard for quality and are driven to use the lowest price flour available.

Many millers think that U.S. wheat is a premium wheat (with a premium price) that can only be used for their high-end flour products. Moreover, low-cost suppliers like China and India can deliver the wheat more quickly and in smaller lots which is an advantage given Vietnam's poor infrastructure including small discharging ports, limited discharging rates and storage facilities.

Vietnam Wheat Flour Imports

Vietnam's wheat flour imports continue to drop as domestic supplies increase. In 2002, wheat flour imports decreased to 50 tmt (equal to 68 tmt of wheat) from 62 tmt imported in 2001. Flour traders estimate Vietnam's 2003 wheat flour imports will be about 40 tmt, a year on year decrease of 20%. Vietnam's wheat flour imports are mainly high-end flour and general purpose flour from Japan. It is reported that imported Japanese flour is sold at higher prices compared with domestic flour even though there are no major quality differences.

Post revises Vietnam's 2002 wheat imports (including wheat flour imports at the conversion rate of 74%) at 892 tmt. Post estimates Vietnam's 2003 wheat imports at 974 tmt (see table 2)

Australian Wheat Board (AWB) aggressive toward Vietnam's market

In early October the AWB organized a seminar in Ho Chi Minh City to update wheat mills about the current Australian wheat crop and quality. According to traders who attended the seminar, the AWB said they expected a bumper wheat crop with production around 24 mmt, and that the AWB is ambitiously targeting a 50% market share in Vietnam's wheat market in 2004.

Wheat Prices

Current indicative prices:

\$175-176 / mt Australian White Wheat (11% Protein but quality is slightly lower than Australian Premium Wheat);

\$155-156 / mt Chinese wheat grade A;

\$142-143 / mt Chinese wheat feed grade

Quotes are C&F port of HCMC, Vietnam.

Traders have stopped offering Indian wheat due to its increasing prices.

Current prices for various kinds of flour in Ho Chi Minh City are:

- High protein flour (11%-13%) -- For making high quality sandwich bread, and buns is about \$260-\$262 /mt.
- Medium protein flour (general purpose flour, 10%-10.5%) -- For general purpose, wet noodles, instant noodles and, baguettes is \$211-\$214/mt.
- Low protein flour (9%-9.5%) -- For making cakes, biscuits, cookies and confectionaries is \$195-\$200 /mt.

Wheat Stock

Post and MARD agree it is very difficult to estimate Vietnam's wheat and wheat flour carry--over stocks. According to contacts in the milling industry, stocks are normally very small.

Table 2: Vietnam wheat PS&D table

PSD Table						
Country	Vietnam					
Commodity	Wheat				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	916	788	900	892	1000	974
Jul-Jun Imports	916	788	900	892	1000	974
Jul-Jun Import U.S.	36	0	0	0	0	0
TOTAL SUPPLY	916	788	900	892	1000	974
TOTAL Mkt. Yr. Exports	0	8	0	13	0	0
Jul-Jun Exports	0	0	0	0	0	0

Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	916	780	900	880	1000	974
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	916	788	900	893	1000	974

Wheat Policy

Effective from September 1, 2003, Vietnam implemented a new preferential tariff system. Accordingly, the preferential import tariff on wheat (code:1001) remains unchanged at 5%. The preferential import tax rate on wheat flour (code: 1101) increased to 20% from previous rate of 15%. In addition, Vietnam charges 5% for the Value Added Tax (VAT) on imports of both wheat and wheat flour.

CORN

Corn production

According to Vietnam's Statistical Department, Vietnam's 2002 corn production was 2,313 thousand metric tons (tmt), an increase of 8% compared with the 2001 crop level due to larger crop areas (see table 3). The crop area expansion was due to good and stable domestic prices as a result of an expansion of the animal feed industry and of the Ministry of Agricultural and Rural Development (MARD)'s crop diversification program.

The largest corn area expansion was in the Tay Nguyen (Central Highlands) region where the crop area increased to 145 tha in 2002 from 103 tha in 2001. Much of that increase is due to crop diversification efforts. Farmers in key coffee growing provinces including Dac Lak, Kon Tum and Lam Dong have chosen corn as a good alternative crop to replace coffee on low productivity area due to maize's short growing period, simple cultivation methods and stable domestic prices. The corn area in Dac Lak province, the largest in the country, increased to 85 tha in 2002 from 63 tha in 2001 crop. According to the province's extension department, coffee farmers in the province continue to convert some coffee land to corn. The province's 2003 corn area is estimated at 100 tha.

In the Mekong River Delta (MRD) where rice cultivation is the dominant crop, the 2002 corn area was up to 25 tha from 22 tha cultivated in 2001. Some farmers in key rice producing provinces including Dong Thap and An Giang find rice/corn/rice farming systems more profitable than rice monoculture (i.e., three rice crops each year). On the other hand, introduction of new salt-resistant corn varieties also contributed to a corn area expansion in some MRD's coastal provinces such as Tra Vinh and Kien Giang province. The corn areas in other regions such as the North West, North Coast central and South East also increased due to changing cropping systems.

In contrast to the crop area, Vietnam's 2002 corn yields declined to 2.86 mt/ha from 2.94 mt/ha in 2001. The crop yield decrease was due to prolonged drought in the Central Coastal and Tay Nguen Highland regions.

MARD and Post estimates that about 65-70% of the total corn area is planted with hybrid corn varieties. Yields of hybrid corn is much higher than local ones, and hybrid corn can yield about 6-8 mt/ha. Despite the higher yields of hybrid corn, many small farmers still find the price too high.

Table 3: Vietnam Corn Production by regions

	Growing areas (tha)			Crop yield (mt/ha)			Production (tmt)		
	2001	2002	2003 est.	2001	2002	2003 est.	2001	2002	2003est.
North Vietnam	446	475	N/A	2.70	2.67	N/A	1,207	1,267	N/A
Red River Delta	68	70	N/A	3.41	3.34	N/A	233	234	N/A
North East	183	189	N/A	2.57	2.49	N/A	470	471	N/A
North West	109	122	N/A	2.33	2.38	N/A	253	290	N/A
North Center Coast	87	94	N/A	2.90	2.90	N/A	251	273	N/A
South Vietnam	280	335	N/A	3.31	3.12	N/A	927	1,046	N/A
South Center Coast	32	35	N/A	2.84	2.58	N/A	91	91	N/A
Central Highland	101	145	N/A	3.21	2.93	N/A	324	425	N/A
North East South	125	129	N/A	3.35	3.34	N/A	418	432	N/A
Mekong River Delta	23	26	N/A	4.13	3.82	N/A	94	99	N/A
TOTAL VIETNAM	727	810	830	2.94	2.86	2.89	2,134	2,313	2,400

Source: Vietnam General Statistical Office and FAS/Vietnam

Posts revises Vietnam's 2002 corn production to 2,313 tmt and the area to 810 tha (see PS&D) table. Post also estimates Vietnam's 2003 corn area at 830 tha with production at 2,400 tmt (see PS&D table), as the corn area is expected to expand in some regions including South Coast, Tay Nguyen Highland and the Red River Delta.

The Ministry of Agricultural and Rural Development (MARD) had made a plan (a national target) to produce 2.8 million metric ton of corn in 2004.

Corn Consumption

According to the MARD, around 72-75% of local corn production is used for animal feed , and the remaining for seed (2-3%) and human consumption (22-25%). Many of the poor ethnic minority people living along Vietnam's borders still consume corn for several months each year.

Post revises Vietnam's 2002 corn domestic consumption up to 2,650 tmt from previous estimate of 2,050 tmt due to higher corn demand from animal feed industry. Corn for human consumption is estimated at 450-500 tmt.

Domestic corn consumption is expected to increase in 2003 to meet increasing demand of animal feed industry. Post estimates Vietnam's 2003 domestic corn consumption at 2,750 tmt of which 2,250 tmt for animal feed industry (see PS&D table).

Corn prices Exchange rate: VND 15,550 equal to \$1 as of October 6, 2003

Domestic prices

Domestic prices for local corn (crop harvest during July – September 2003) are increasing rapidly from \$113-\$114 / MT in the middle of August to \$132-\$133/ MT by the end of September as farmers and small traders are holding corn stock.

Indicative offer prices of Chinese corn

Current indicative prices of China corn is \$127-128/mt C&F HCMC, quite high compared to last year's price. Given the current price structure, Vietnam will be importing more corn in the near future from China and other surrounding countries.

Trade

According to trade sources, Vietnam's 2002 corn imports were 320 tmt of which 5-6 thousand mt were seed corn. China was the major corn supplier to Vietnam for the feed industry with the export volume at around 270 tmt. Other corn suppliers to Vietnam included Argentina and Thailand. Thailand was the major supplier of hybrid seed to Vietnam.

In CY-2002, Vietnam imported 199 mt of corn from the U.S., much higher than 2001's level of 159 mt (see table 4). Although U.S. corn exports to Vietnam made a big increase in 2002, and in the first seven months of 2003, they are still insignificant compared to Vietnam's total imports. U.S. trade data shows that in the first seven months of 2003 U.S. corn export to Vietnam increased by 48% compared with the same period of 2002.

According to trade sources, the U.S. corn imported into Vietnam was mostly popcorn (90%) and seed corn (10%).

Table 4: U.S. corn exports to Vietnam (2000-Jan/July 2003)

	2000	2001	2002	Jan-July 2003
Quantity (mt)	145	159	199	145
Value (\$1,000)	60	68	90	70

Source: Bico Format, U.S. Trade Data, USDA/FAS

According to trade sources, Vietnam has imported about 300 tmt of corn as of the end of September 2003. Imports from China were estimated at 250 tmt, accounting for about 80% of total imports. Myanmar (Burma) is reportedly a new corn supplier to Vietnam. Post estimates Vietnam 2003's total corn import at 360 tmt (see PS&D table 5)

Table 5: Vietnam's Corn PS&D table

PSD Table						
Country	Vietnam					
Commodity	Corn				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		05/2001		05/2002		05/2003
Area Harvested	727	727	780	810	780	830
Beginning Stocks	0	76	0	48	0	28
Production	2112	2112	2250	2313	2250	2400
TOTAL Mkt. Yr. Imports	122	40	300	320	300	360
Oct-Sep Imports	263	40	300	320	300	360
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	2234	2228	2550	2681	2550	2788
TOTAL Mkt. Yr. Exports	17	2	0	3	0	0
Oct-Sep Exports	12	0	0	0	0	0
Feed Dom. Consumption	1767	1680	2100	2200	2100	2250
TOTAL Dom. Consumption	2217	2178	2550	2650	2550	2750
Ending Stocks	0	48	0	28	0	38
TOTAL DISTRIBUTION	2234	2228	2550	2681	2550	2788

Policy

Import tariffs for corn revised down to 5% from previous rate of 7%

On July 25, 2003, Vietnam's Finance Ministry issued Decree 110/2003/QD-BTC on Vietnam's 2003 Preferential Import Tariffs (see VM3017). Accordingly, import tariffs charged on corn as follow: 0% on seed corn (HS code: 1005.10); 5% on other corn (1005.90) and 50% on popcorn (1005.90.10). The new rates are effective from September 1, 2003.

The Preferential Import Tariff rate charged on corn imported for animal feed was 7% before September 1, 2003.